

S-7

CIA No. 4811

Mr. Arthur W. Barber  
Deputy Assistant Secretary  
Arms and Trade Control  
International Security Affairs  
Department of Defense

Dear Art:

As you know, [ ] of our staff recently met with Mr. Rubin and Mr. Nichols from your side to search for a constructive approach to your request of 23 May (Reference: I-6244/67).

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Your interest in projects of U.S. commodities by Western European governments and public enterprises is understandable. The impressive size and growth of these procurement activities obviously can be of considerable political and economic significance in our relations with these countries.

Mr. Rubin and [ ] have agreed that the first step is to survey the material available in Washington to determine what kinds of answers relevant to your concern might be derived. This will take some digging but hopefully we can complete our preliminary analysis sometime in August. A decision can then be made as to the form the study might take and how it might best be produced, i.e., how we should go about developing the missing data and who most appropriately might do the research.

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You will hear from me again in August on this matter.

Sincerely,

OSD, DOE and DOS Declassification/Release  
Instructions on File

/s/ [ ]

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William N. Morell, Jr.  
Director  
Economic Research

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cc: Mr. Joseph Greenwald  
International Trade Policy  
Bureau of Economic Affairs  
Department of State

6 JUL 1967

23 JUN 1967

TO: D/ORR

The attached is what I propose we tell Barber in response to his request. Reference memorandum:

- (1) Memorandum of Arthur Barber to Mr. Moorell, dated 23 May 1967
- (2) Memorandum of Townsend Hoopes to Mr. Smith, dated 31 May 1967

*stet* (3) Memorandum of [redacted] to Mr. Moorell, dated ~~15 June 1967~~

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28 JUN 1967

1. We have discussed your request for studies of procurement of US goods by European governments and of the implications of US direct investment in Europe among ourselves and with Mr. Rubin and Mr. Nichols, of your department. Although the Near East crisis has preempted much of our research time, we hope to be of some help to you on both of these important questions.

2. We understand that you are looking for measures of the size and composition of European government procurement of US goods in order to better understand the possible impact of retaliatory actions by these governments in the event the US reduces its procurement of European goods. At this stage the research problem appears to be to bring together <sup>which</sup> information on European government procurements in the US has been collected by various agencies and to examine European sources for additional information. This office does not have the technical expertise on western countries to do detailed studies of procurement in individual industries and has no unique sources of information on the subject. As [redacted] told Mr. Rubin, however, we can do a preliminary study with the material available in Washington to determine whether further more detailed research is feasible and desirable. We could probably complete such a study by mid-August.

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3. The role of US direct investment and technology in Western Europe is a highly important, but complex problem which we plan to study on a continuing basis. The problem can be viewed from many angles, the most popular of which recently has been to focus on the so called "technology gap". We gather that you would like us to view the problem also from the opposite point of view -- the possible use of US firms and technology by the European Governments to promote their own national interest. We are not certain how broad your interest<sup>s</sup> are: whether you view the problem mainly as one of control over the use of US goods and technology, or mainly as one of the economic effect of US investment and technology in Western Europe. On the narrower question, we have written for Arthur Barker on the French advanced weapons program and as you know we support Commerce and State on all trade control questions involving Communist countries. We probably cannot add much to what we have already done on these topics. On the broader economic question, we want to focus our research in ways that would be most useful for purposes of policy formulation and welcome your suggestions and guidance. For the moment, we plan to do research on this topic but are not yet able to commit ourselves as to the scope and timing of the end product of this research.

26 June 1967

MEMORANDUM OF CONVERSATION

Participants: OSD/ISA - Mr. Rubin (Alfred F.) and Mr. Nichols  
CIA/ORR - [REDACTED]

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References: (1) Memorandum of Arthur Barber to Mr. Morrell, dated  
23 May 1967  
(2) Memorandum of Townsend Hoopes to Mr. Smith, dated  
31 May 1967  
(3) Memorandum of [REDACTED] to Mr. Morrell, dated  
15 June 1967

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1. We met for an hour in Mr. Rubin's office (Rm. 4 C 763, Pentagon) on Thursday afternoon, 22 June. The purpose of our visit was to clarify the requests contained in the reference memoranda. The principal results of our discussion are summarized below.

2. Mr. Barber's Memorandum - The Secretary of Defense is considering proposals to reduce purchases of foreign goods. ISD feels this would invite retaliatory action by foreign governments and would like to know the potential dimensions of such a response. What is needed to assess this potential is data on purchases of US goods by foreign governments. Such information is not readily available. ISA would like us to survey potential data sources, indicating what can be found and what cannot. At that point, a decision would have to be made as to how the missing data could best be developed and who should undertake the task -- a government department (State, Commerce, CIA) or an external contractor. We agreed to undertake the initial survey.

3. Mr. Hoopes Memorandum - We pointed out that the study requested was exceptionally broad in scope and, in its present form, unresearchable. We asked if either Mr. Rubin or Mr. Nichols could suggest a feasible focus or otherwise elucidate the request. Neither could. After a few brief desultory attempts, they concluded that it would be best to await the outcome of Mr. Hornig's sojourn in Europe.

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15 June 1967

MEMORANDUM FOR: Director/Office of Research & Reports

SUBJECT : Request from Townsend Hoopes

REFERENCE : Memorandum from Townsend Hoopes

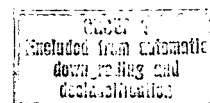
US subsidiaries abroad are subject to and governed by the laws of the country in which they operate. Thus, it is always possible that when the policies of other countries diverge from those considered in the best interests of the US, that US subsidiaries in those countries will be forced to operate in a manner detrimental to US interests. In such cases, possible US Government courses of action are obviously severely circumscribed. In fact US attempts to exert control over US subsidiaries in foreign countries can, in themselves, create foreign policy problems as witness US attempts to stop Canadian sales of US automobile parts to Cuba.

The referenced memorandum can be interpreted as requesting studies on one or more of the following:

a. The US technological contribution, through US subsidiaries, to European advanced weapons programs. The only European country with such a program at present is France and a study on this was prepared recently for Arthur Barber. The only other European countries which might possibly embark on such programs in the near future are West Germany and Sweden. It would be possible to prepare a list of the US subsidiaries located in those countries which might make a contribution to an advanced weapons program.

b. The problem of applying US trade control regulations to US subsidiaries abroad. Obviously when US technology is available in those countries whose embargo program is less stringent than that of the US, chances of the contravention of US controls are increased. ORR, through its membership on the various interagency economic defense committees,

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SUBJECT: Request from Townsend Hoopes

passes routinely to other government agencies all information on this subject. It is doubtful if much additional light could be shed by laying on a special project.

c. US technological contribution to European economic progress. While it is by no means sure that there is any real correlation between the existence of US subsidiaries in a country and the availability of US technology in that country, some meaningful research might be done on the subject.

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INTERNATIONAL SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

STATINTL

In reply refer to: I-6244/67

23 May 1967

Mr. William Morrell  
Central Intelligence Agency  
Langley, Virginia

Dear Bill:

Attached is a cable and a note from Phil Trezise concerning the possibilities of restrictive government procurement policies in Western Europe which might affect US sales. I would appreciate it very much if you would attempt to develop more definitive data on Western European government purchases of major US material. An examination of aircraft or electronic sales might provide a good indication of the detailed aspects of the problem.

Also, I think we should be aware that in some cases the government may have very great influence over the procurement policies of nominally "private" companies; specifically, government subsidized airlines, transportation, and communication companies.

I appreciate your help in this matter.

With best wishes.

Sincerely,

A handwritten signature in cursive script, appearing to read "Art", is written over the typed name.

Arthur Barber  
Deputy Assistant Secretary

Enclosures

cc: Hon. Philip H. Trezise

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